

Economic Watch

Brazil

Madrid, 9 June 2011
Economic Analysis

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The Monetary Policy Committee of the Central Bank (COPOM) decided to raise the SELIC rate by 25bps to 12.25%. The short communiqué released yesterday suggests the monetary authority will continue adjusting interest rates up in July

Brazil: CB adjusts the SELIC up and signals more tightening

- As widely expected, the COPOM hiked the SELIC rate by 25bps. The reference interest rate is now at 12.25%, 150bps more than the rate observed at the beginning of the year and 350bps higher than the minimum level reached during the worst of the crisis in 2009.
- The COPOM's accompanying statement was practically identical to the issued in the previous meeting: "Continuing the process of gradual adjustment of monetary conditions, the COPOM decided unanimously to increase the SELIC rate to 12.25%, without bias. Considering the balance of risks for inflation, the still uncertain pace of moderation of the economic activity, as well as the complexity of the current international environment, the Committee believes that the adjustment of monetary conditions for a prolonged period is the most adequate strategy to guarantee the convergence of the inflation to the target in 2012" (free translation).
- From this communication, we highlight the use, one more month, of the expression "prolonged period", which, in our view, would not be there if this was planned to be the last hike of this tightening cycle.
- We should, therefore, expect the CB to continue adjusting the SELIC up gradually. More precisely, we think that the cooling down of the economy and inflation will create conditions for the CB to implement one last 25bps hike on July 20 and then to keep rates unchanged till the end for the year. The release of the minutes of the COPOM's meeting next week on June 16 will, therefore, allow us a better assessment of the CB strategy to make 2012 inflation converge to 4.5%/y.

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